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Research on Enterprise Value Assessment and Value Creation Based on Financial Drivers — From the Perspectives of EBIT Margin, Capital Allocation, Expense Control, and Working Capital

Yutong Xia

Shenghuazizhu Academy, Shanghai, China
yutongxiarita@163.com

Abstract. Maximizing enterprise value has become the central objective of modern corporate financial management. Accurate valuation underpins capital-market pricing, M&A deals, and strategic decision-making. Drawing on literature analysis and theoretical reasoning, this paper sorts out the theoretical foundations and mainstream methods of corporate valuation, then focuses on the transmission mechanisms through which four financial drivers affect firm value: the EBIT margin, capital allocation (capital structure, the cost of capital, and capital expenditure), expense control, and working capital management. It also examines the complementary role of non-financial factors such as corporate governance, digital transformation, and environmental, social, and governance (ESG) performance. The study argues that the EBIT margin lifts valuation through operating cash flow, that capital allocation shapes value through the discount rate and growth opportunities, and that expense control together with working-capital turnover create value by improving free cash flow. These conclusions may inform managers' value-based decisions and future empirical work.

Keywords: enterprise value, financial drivers, EBIT margin, working capital management

1. Introduction

Corporate value captures a firm's future profitability and growth potential and sits at the core of corporate finance research. Pricing in the capital market, valuation in mergers and acquisitions, financing and investment decisions, and even disclosure regulation all rest on a reliable estimate of firm value. Existing studies have built a mature toolkit of valuation methods, yet most approach the issue through a single method or a single indicator, and systematic work on the financial drivers of firm value and their transmission channels remains limited. In particular, no unified framework explains how the EBIT margin, capital structure, expense composition, and working-capital efficiency jointly influence firm value. This paper therefore takes financial drivers as its main thread, investigates how profitability, capital allocation, expense control, and working-capital management affect firm value, and builds an analytical framework accordingly. It is expected to

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deepen the understanding of value-creation mechanisms and serve as a reference for managers and future researchers.

2. Theoretical basis and valuation methods of enterprise value

2.1. The intension of enterprise value and theoretical evolution

Enterprise value can be understood at two levels. At the accounting level, it rests on book assets; at the financial level, it stresses the ability to generate future cash flow. Modigliani and Miller's capital-structure irrelevance theorem first linked firm value to the capitalization of future earnings and laid the theoretical foundation of valuation [1]. Shareholder value theory subsequently treated value maximization for shareholders as the fundamental goal of the firm and measured value creation through discounted cash flow [2]. Stakeholder theory goes further, extending the value subjects to employees, customers, and society and viewing firm value as jointly created by all stakeholders. In short, the connotation of enterprise value has shifted from static book assets toward dynamic future cash flows.

2.2. Mainstream valuation methods

2.2.1. Discounted cash flow (DCF) and its derivative models

The discounted cash flow method discounts future free cash flow at the weighted average cost of capital (WACC) and is currently the most widely applied and theoretically grounded valuation approach [3, 4]. FCFF takes all capital providers as its basis and is more robust when the capital structure changes frequently; FCFE targets equity investors and matches the cost of equity. The two differ mainly in their treatment of interest and the debt tax shield. DCF brings profitability, the cost of capital, and capital expenditure into a single valuation framework, offering a direct interface for analyzing financial drivers.

2.2.2. Relative valuation

Relative valuation estimates firm value through multiples such as price-to-earnings (P/E), price-to-book (P/B), and EV/EBITDA derived from comparable companies or comparable transactions [4]. Because EV/EBITDA removes differences in capital structure and depreciation policy and links directly to the EBIT margin, it facilitates cross-company comparisons of operating profitability.

2.2.3. Economic value added and real options

Economic value added (EVA) measures value creation as after-tax operating profit less the full cost of capital, thereby exposing the value destruction hidden behind accounting profit [5]. The real-options approach treats investment opportunities as options and suits the strategic valuation of high-growth, high-uncertainty firms, complementing DCF.

2.3. Market-based measures of enterprise value

At the market level, Tobin's Q, market value added (MVA), and the market-to-book ratio (M/B) are commonly used to measure firm value. Tobin's Q, defined as the ratio of market value to replacement cost, captures market assessment and is widely used in empirical research [6]. MVA

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measures the excess of market value over invested capital and directly reflects value-creation ability. These indicators offset the lag and distortion of accounting measures and provide observable dependent variables for empirical analysis.

3. Analysis of the core financial drivers of enterprise value

Drawing on the valuation methods above, the four financial drivers affect firm value through distinct yet interrelated channels (see Table 1).

Table 1. Financial drivers and their value transmission channels

Financial driver	Key indicators	Transmission channel	Value effect
EBIT margin	Operating profit / operating revenue	Operating cash flow	Higher valuation
Capital	Capital structure, WACC, capital expenditure	Discount rate and growth opportunities	Determines the value ceiling
Expense management	Selling, G&A, and R&D expense ratios	EBIT margin	Indirect value creation
Working capital	Receivables, inventory, payables turnover, and CCC	Free cash flow	Higher valuation

3.1. Profitability and enterprise value—analysis centered on the EBIT margin

The EBIT margin reflects core profitability after excluding the influence of financing structure and is the most important driver of firm value. Its transmission mechanism runs as follows: the higher the EBIT margin, the more operating profit and operating cash flow each unit of revenue generates; with the cost of capital unchanged, the present value of free cash flow rises and so does valuation. Empirically, this value transmission can be verified by comparing EBIT margins and market capitalization across industries or by running panel regressions that estimate the marginal effect of the EBIT margin on Tobin's Q. Management should sustain and improve the EBIT margin by strengthening product competitiveness, optimizing the product mix, and controlling unit costs.

3.2. Capital and enterprise value—value effects of capital structure, cost of capital, and capital expenditure

Capital influences firm value through three channels. First, debt financing carries a tax shield but raises the risk of financial distress; according to the trade-off theory, the value-maximizing point lies where the marginal tax-shield benefit equals the marginal cost of distress [1]. Second, WACC is the core discounting parameter in DCF models, and a lower WACC raises the valuation attached to any given stream of cash flows; optimizing the capital structure and lowering financing costs can therefore directly lift value. Third, capital expenditure determines future growth opportunities and long-run cash flow: well-directed spending forms growth options, whereas excessive or inefficient investment destroys value. These theoretical predictions can be checked by plotting capital-expenditure intensity against firm value to observe how the level of investment relates to market valuation.

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3.3. Expense management and enterprise value—the role of cost control in value creation

Expense control affects firm value indirectly by improving the EBIT margin. The selling expense ratio, the general and administrative expense ratio, and the R&D expense ratio capture the efficiency of different spending items. Selling and administrative expenses are compressible operating costs whose excessive rigidity erodes profit; R&D spending, by contrast, is a strategic investment that burdens near-term costs but creates value in the long run through innovation and enhanced competitiveness. The key to expense management is therefore to distinguish rigid operating costs from strategic investments, keeping operational spending under control while sustaining value-creating outlays. Comparing the composition of expenses across firms can illustrate the differential effects of alternative cost strategies.

3.4. Working capital management and enterprise value—efficiency and cash flow effects

The efficiency of working capital management—working capital being current assets minus current liabilities—directly affects free cash flow and firm value. The cash conversion cycle (CCC) is jointly determined by the turnover of accounts receivable, inventory, and accounts payable: the less working capital a firm ties up and the faster it turns over, the lower the cost of capital employed, the more abundant its free cash flow, and the higher its valuation [7]. Empirical research generally finds a positive association between working-capital efficiency and profitability [7]. Because business models differ across industries, comparing working-capital efficiency across sectors helps identify industries with heavy capital occupation and slow turnover, where improvement is most feasible.

4. Extended analysis of non-financial factors on enterprise value

4.1. Corporate governance and enterprise value

Corporate governance affects firm value by lowering agency costs and improving decision quality. The governance index constructed by Gompers and colleagues shows that firms with stronger shareholder rights command higher market value [8]; board size is negatively related to firm value, as smaller boards make decisions more efficiently [9]; and firms in countries with stronger investor protection tend to be valued higher [10]. Ownership structure, board independence, and managerial incentives constitute the institutional environment within which financial drivers operate.

4.2. Digital transformation and enterprise value

Digital transformation enhances firm value by improving operational efficiency, promoting technological innovation, and reducing information asymmetry. Re-engineering business processes digitally lowers unit costs and improves working-capital turnover, while the information and attention effects can also refine the pricing efficiency of the capital market. Existing evidence indicates that digital transformation significantly raises both economic and social value through intermediary channels such as R&D and innovation [11], and that it interacts with the EBIT margin and working-capital efficiency.

4.3. ESG performance and enterprise value

ESG performance affects firm value through cash-flow, risk-mitigation, and valuation channels [12]. Strong ESG performance strengthens identification among customers and employees, curbs

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operational and compliance risks, and lifts valuation by lowering financing costs and WACC. It is also important to distinguish between ESG disclosure and substantive action: real improvements earn a value premium, whereas formalistic disclosure struggles to win market recognition.

5. Conclusion

Taking financial drivers as its main thread and combining valuation methods such as DCF, relative valuation, and EVA, this paper systematically examines the transmission mechanisms through which the EBIT margin, capital allocation, expense control, and working-capital management influence firm value, and further explores the roles of corporate governance, digital transformation, and ESG performance. Four conclusions follow. First, the EBIT margin is the core driver of value creation, directly lifting valuation through operating cash flow. Second, capital structure, WACC, and capital expenditure jointly determine the discount rate and growth opportunities, and the efficiency of capital allocation sets the ceiling on firm value. Third, expense control creates value indirectly by improving the EBIT margin, while strategic outlays such as R&D carry a long-term value effect. Fourth, the efficiency of working-capital turnover raises valuation by improving free cash flow. As for limitations, this paper relies mainly on literature analysis and theoretical reasoning, has not yet been tested empirically on industry-specific samples, and does not incorporate quantified indicators of ESG and digital transformation into a unified framework. Future research could combine panel data on listed companies to build an integrated value model of financial and non-financial drivers and to test how these drivers differ across industries and stages of development.

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